



**To:** Mary Nichols, Chair  
California Air Resources Board

**Fr:** Climate Change Policy Coalition

**Date:** January 20, 2017

**Re:** California Air Resources Board's Consideration of the Proposed Amendments to the Cap-and-Trade Regulation [December 21, 2016]

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The Climate Change Policy Coalition (CCPC) is a coalition of business, housing, and taxpayer groups working for effective implementation of California's climate policies. CCPC represents regulated entities subject to the cap-and-trade program, and our goal is to provide a constructive voice in how program improvements are proposed and design element updates are adopted by the California Air Resources Board (ARB).

These comments are in response to the ARB's 'Proposed Amendments of the Cap-and-Trade Regulation' released on December 21, 2016. While the December 21, 2016 document specifically states:

*"Therefore, staff will only address comments received during this 15-day comment period that are responsive to the modifications to the originally proposed amendments that are described in this Notice or identified by the double-underline and double-strikethrough formatting in Attachment A."*

CCPC continues to believe there are a number of design flaws within the cap-and-trade regulation that need to be addressed. Limiting the stakeholder comments to specific areas of the regulation is not forward thinking nor a transparent policy-making course. Below you will read CCPC's on-going issues that we believe must be reconciled as we move forward, especially if we want a program that other states and sub-nationals will want to participate in.

### **15-Day Comment Period:**

As stated by CCPC, in September and November 2016 comments, we believe a well-designed cap-and-trade program can become an effective regulatory program to reduce emissions in a cost effective manner that maintains the competitiveness of California's businesses – but how that's accomplished will make or break California's economy. We remain concerned that the use of 15-day comment periods is insufficient for stakeholders to properly review and add constructive substantive comments for such an integral part of California's climate change policies. We recommend ARB Board directs staff to work within the 45-day comment period framework(s) moving forward to ensure the end product is the best designed and can be sustained.

### **The Importance of a Well Designed Cap-and-Trade Program:**

California's greenhouse gas reduction laws post-2020 will be unworkable without a well-designed market mechanism.

### **Allowance Allocation Formula:**

The allowance allocation formula continues to raise concerns among businesses in the regulated community. ARB must take into consideration any unintended consequences that will result in the competitiveness of our California producers along with economic and emissions leakage that will occur should the allocation formula become too rigid.

Reductions in GHGs are driven by the cap, not by allowance allocation. Reductions in GHGs are improved if the state minimizes leakage as required in AB 32 38562(b)(7) because leakage causes emissions outside of the cap to increase. The program can better meet California's climate goals by extending the full industry assistance factor. For these reasons, we recommend that ARB extend full industry assistance factor into future compliance periods.

### **Energy Intensive Trade Exposure [EITE]:**

By the authors' own admissions the academic studies being relied upon by

ARB staff contain a number of areas of caution or caveats within the studies. We recommend the Board directs staff to continue to not only work with the researchers but also the regulated industries. These industries have a more comprehensive view of the methodologies and metrics that should be employed rather than the ‘apples to oranges’ approach the studies have now used. We have the time to refine these studies or develop additional studies. A comprehensive examination of EITE issues must be a priority. Setting and pursuing arbitrary deadlines will only do a disservice to California’s economy and the cap-and-trade program.

The difficulty of accurately evaluating the impact of California-only policy vis-à-vis EITE industries is demonstrated in the deficiencies in these studies. Given this uncertainty, policy makers must retain focus on the primary goal, reduced emissions. It is crucial that policies do not place an anti-industry bias above environmental goals.

Further, we must note the ARB staffs’ statements in its ‘Industry Assistance’ workshop of November 7<sup>th</sup> that 7.5% reduction in any sector output in California was not considered an economic loss and therefore was not a potential for leakage. This statement which largely equates to another great recession, similar to the one that California just weathered, is indicative of a cavalier approach to potential impacts of climate policies on one of the primary sources of jobs in the California economy.

### **The Need For A Broad Use Of Offsets:**

Offsets are a proven and cost-effective means of meeting AB 32 compliance obligations. CCPC supports our members and like-minded groups with the notion that a robust offset program is a key cost containment mechanism. A robust supply of offsets is required in order to reduce program costs. Expanding the allowable use of offsets is a sound policy choice. Numerous economic studies have shown, including ARB's own analysis, that offsets are the best market-based alternative to reduce costs and limit leakage. Expanded use of offsets is consistent with ARB's statutory obligation to achieve the maximum technologically feasible and cost-effective GHG emissions reductions.

### **Cap-and-Trade Program Review & Comparison Process:**

ARB should direct staff to examine each program under cap-and-trade program against the inventory to determine if adjustments are called for in order to better meet the requirements of our AB 32 goals – that of achieving the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions.

### **Lack of Authority For Post 2030 Allowance Budgets:**

Despite the 2016 passage of SB 32 (Pavley), and beyond the lack of authority for a cap-and-trade program 2020, there is certainly no authorization to establish a GHG emission reduction limit for 2050. We recommend that ARB remove post-2030 caps from this rulemaking.

### **Industrial Advisory Council:**

CCPC continues to encourage ARB to establish an “Industrial Advisory Council” (IAC) a representative group of industrial entities be a part of ARB’s process to develop regulations with regard to climate change policies. The IAC will evaluate and provide feedback to ARB staff during the regulatory development process in a formal capacity.

### **Conclusion:**

CCPC looks forward to finding solutions and working with ARB staff to improve the cap-and-trade program to ensure we have a program that meets the state’s climate change policy goals while protecting the California’s economy and environment. Should you have any questions or need anything further from us, please feel free to contact Shelly Sullivan at (916) 858-8686.

cc: California Air Resources Board Members  
Dr. Steve Cliff, Senior Advisor to the Chair  
Richard Corey, Executive Officer  
Edie Chang, Deputy Executive Officer  
Rajinder Sahota, Branch Chief, Cap-and-Trade Division